Dollars in millions except per share amounts

6. Debt

Long-term debt, including interest rates and maturities, is summarized as follows at December 31:

		1996	1995
SWBell			
Debentures			
4.50%-5.88%	1997-2006	$ 600	$ 600
6.12%-6.88%	2000-2024	1,200	1,200
7.00%-7.75%	2009-2026	1,500	1,500
8.30%	1996	-	200
		3,300	3,500
Unamortized discount--net of premium		(29)	(31)
Total debentures		3,271	3,469
Notes			
5.04%-7.67%	1997-2010	1,118	950
Unamortized discount		(6)	(5)
Total notes		1,112	945
PacBell			
Debentures			
4.62%-5.88%	1999-2006	475	225
6.00%-6.88%	2002-2034	1,194	945
7.12%-7.75%	2008-2043	2,150	2,150
8.50%	2031	225	225
		4,044	3,545
Unamortized discount--net of premium		(89)	(85)
Total debentures		3,955	3,460
Notes			
6.25%-8.70%	2001-2005	1,150	1,150
Unamortized discount		(18)	(20)
Total notes		1,132	1,130
Other notes			
5.70%-6.98%	1996-2007	310	316
7.00%-9.50%	1996-2020	1,140	1,263
		1,450	1,579
Unamortized discount		(14)	(21)
Total other notes		1,436	1,558
Guaranteed obligations of employee stock ownership plans [1]			
8.41%-9.40%	1996-2000	208	260
Capitalized leases		303	48
Total long-term debt, including current maturities		11,417	10,870
Current maturities		(487)	(461)
Total long-term debt		$ 10,930	$ 10,409

[1] See Note 9.

During 1995, SBC refinanced long-term debentures of SWBell and PacBell. Costs of $36 associated with refinancing are included in other income (expense) - net, with related income tax benefits of $14 included in income taxes in SBC's Consolidated Statements of Income.

Dollars in millions except per share amounts

At December 31, 1996, the aggregate principal amounts of long-term debt scheduled for repayment for the years 1997 through 2001 were $487, $347, $582, $485 and $509. As of December 31, 1996, SBC was in compliance with all covenants and conditions of instruments governing its debt.

During 1996, PAC entered into sale and leaseback arrangements to finance equipment associated with the buildout of its PCS network. As of December 31, 1996 the obligation remaining for this group of leases is $270. These leases are classified as capitalized leases and the related assets are classified as property, plant and equipment.

Debt maturing within one year consists of the following at December 31:

	1996	1995
Commercial paper	$ 1,848	$ 2,749
Current maturities of long-term debt	487	461
Total	$ 2,335	$ 3,210

The weighted average interest rate on commercial paper debt at December 31, 1996 and 1995 was 6.0% and 5.8%. SBC has entered into agreements with several banks for lines of credit totaling $750. All of these agreements may be used to support commercial paper borrowings and are on a negotiated fee basis with interest rates negotiable at time of borrowing. There were no borrowings outstanding under these lines of credit at December 31, 1996. Another group of uncommitted lines of credit with banks that do not require compensating balances or commitment fees, and accordingly are subject to continued review, amounted to approximately $2,800 at December 31, 1996.

7. Financial Instruments

The carrying amounts and estimated fair values of SBC's long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SWBell debentures	$3,271	$3,208	$3,469	$3,553
SWBell notes	1,112	1,115	945	965
PacBell debentures	3,955	3,917	3,460	3,651
PacBell notes	1,132	1,171	1,130	1,224
Other notes	1,436	1,478	1,558	1,629
Trust originated preferred securities (TOPrS)	1,000	990	-	-
Guaranteed obligations of employee stock ownership plans[1]	208	219	260	280

[1] See Note 10.

The fair values of SBC's long-term debt were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The fair value of the TOPrS was estimated based on quoted market prices. The carrying amounts of commercial paper debt approximate fair values.

SBC does not hold or issue any financial instruments for trading purposes. SBC's cash equivalents and short-term investments are recorded at amortized cost. The carrying amounts of cash and cash equivalents and short-term investments and customer deposits approximate fair values.

Pacific Telesis Financing I and II (the Trusts) were formed for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. TOPrS are subject to a limited guarantee from PAC. PAC sold $1 billion of TOPrS, $500 at 7.56% in January 1996 through Pacific Telesis Financing I and $500 at 8.5% in June 1996 through Pacific Telesis Financing II. Both issues of TOPrS were priced at $25 per share, have an original 30-year maturity that may be extended up to 49 years, and are callable five years after date of sale at par and are included on the balance sheet as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper.

As of December 31, 1996, Pacific Telesis Financing I and II held subordinated debt securities of PAC in principal amounts of $515.5 and $514.5, respectively, with interest rates of 7.56% and 8.5%, respectively.

PAC has entered into an equity swap contract to hedge exposure to risk of market changes related to its recorded liability for outstanding employee stock options for common stock of AirTouch Communications, Inc. (spun-off operations) and associated SARs. (See Note 11) PAC plans to make open market purchases of the stock of spun-off operations to satisfy its obligation for options that are exercised. Off-balance-sheet risk exists to the extent the market price of the stock of spun-off operations rises above the market price reflected in the liability's current carrying value. The equity swap was entered into to hedge this exposure and minimize the impact of market fluctuations. The contract entitles PAC to receive settlement payments to the extent the price of the common stock of spun-off operations rises above the notional value of $23.74 per share, but imposes an obligation to make payments to the extent the price declines below this level. The swap also obligates PAC to make a monthly payment of a fee based on LIBOR. The total notional amount of the contract, $60 and $77 as of December 31, 1996 and 1995 respectively, covers the approximate number of the options and SARs outstanding of spun-off operations on that date. PAC plans to periodically adjust downward the outstanding notional amount as the options and SARs are exercised. The equity swap contract expires April 1999.

Both the equity swap and PAC's liability for the stock options and SARs of spun-off operations are carried in the balance sheet at their market values, which were immaterial as of December 31, 1996 and 1995. Gains and losses from quarterly market adjustments of the carrying amounts are substantially offset in results of operations. As of December 31, 1996 and 1995, the accounting loss that would be incurred from nonperformance by the counterparty to the equity swap was $4 and $14, respectively. However, management does not expect to realize any loss from counterparty nonperformance.

Dollars in millions except per share amounts

8. Income Taxes

Significant components of SBC's deferred tax liabilities and assets are as follows at December 31:

	1996	1995
Depreciation and amortization	$ 3,283	$ 3,072
Other	1,019	820
Deferred tax liabilities	4,302	3,892
Employee benefits	2,221	2,206
Unamortized investment tax credits	195	224
Other	1,328	1,503
Deferred tax assets	3,744	3,933
Deferred tax assets valuation allowance	96	110
Net deferred tax liabilities	$ 654	$ 69

In 1996 the State of California reduced the corporate tax rate from 9.3% to 8.84%, effective for taxable years beginning on or after January 1, 1997. In accordance with generally accepted accounting principles, net deferred tax assets at December 31, 1996 were revalued to reflect the lower tax rate. This revaluation increasing state income tax expense, net of federal income tax, and decreasing net income was not material in 1996.

The decrease in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

	1996	1995	1994
Federal			
Current	$ 1,242	$ 829	$ 1,347
Deferred--net	468	520	(49)
Amortization of investment tax credits	(80)	(95)	(124)
	1,630	1,254	1,174
State and local			
Current	172	176	245
Deferred--net	158	89	29
	330	265	274
Total	$ 1,960	$ 1,519	$ 1,448

Dollars in millions except per share amounts

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes and extraordinary loss is as follows:

	1996	1995	1994
Taxes computed at federal statutory rate	$ 1,802	$ 1,567	$ 1,479
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits--1996 and 1995, net of deferred income tax	(53)	(92)	(124)
Excess deferred income taxes due to rate change	-	(24)	(35)
Depreciation of telephone plant construction costs previously deducted for tax purposes--net	-	14	23
State and local income taxes--net of federal income tax benefit	215	172	178
Other--net	(4)	(118)	(73)
Total	$ 1,960	$ 1,519	$ 1,448

9. Employee Benefits

Pensions - Substantially all employees of SBC are covered by one of three noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost for nonmanagement employees is based on a flat dollar amount per year of service according to job classification. For PAC managers, benefits accrue in separate account balances based on a fixed percentage of each employee's monthly salary with interest. For all other managers, employees' benefits are determined based upon a stated percentage of adjusted career income.

SBC's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds, index funds and real estate.

SBC reports pension costs and related obligations under the provisions of FAS 87 and FAS 88. However, prior to discontinuing application of FAS 71 during 1995, PacBell recognized pension costs consistent with the methods adopted for ratemaking. Nevada Bell continues to follow the accounting method prescribed by the Public Service Commission of Nevada. Pension costs recognized by PacBell under FAS 71 reflected a California Public Utilities Commission (CPUC) order requiring the continued use of the aggregate cost method for intrastate operations and a Federal Communications Commission (FCC) requirement to use FAS 87 and FAS 88 for interstate operations. (See Note 2)

Net pension cost is composed of the following:

	1996	1995	1994
Service cost--benefits earned during the period	$ 297	$ 311	$ 354
Interest cost on projected benefit obligation	1,131	1,161	1,142
Actual return on plan assets	(2,919)	(4,232)	(24)
Other--net	1,270	2,813	(1,396)
Net periodic pension cost (benefit) under FAS 87	(221)	53	76
Adjustment to reflect differing regulatory treatment	-	-	18
Net pension cost (benefit)	$ (221)	$ 53	$ 94

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

The following table sets forth the pension plans' funded status and the amounts included in SBC's Consolidated Balance Sheets at December 31:

	1996	1995
Fair value of plan assets	$ 20,738	$ 20,019
Less: Actuarial present value of projected benefit obligation	15,006	17,339
Plan assets in excess of projected benefit obligation	5,732	2,680
Unrecognized prior service cost	845	992
Unrecognized net gain	(6,072)	(3,272)
Unamortized transition asset	(973)	(1,099)
Accrued pension cost	$ (468)	$ (699)

The projected benefit obligation was increased $202 and $407 at December 31, 1996 and 1995, respectively, for the cost of force reductions anticipated to take place in 1996 and 1997 and recognized in the SBC's financial statements under FAS 88.

Significant weighted average assumptions used in developing pension information include:

	1996	1995	1994
Discount rate for determining projected benefit obligation	7.5%	7.25%	7.78%
Long-term rate of return on plan assets	8.55%	8.0%	8.0%
Composite rate of compensation increase	4.3%	4.3%	4.3%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

In March 1996, management amended the pension plan for PAC managers from a final pay plan to a cash balance plan effective July 1, 1996. An enhanced transition benefit, based on frozen pay and service as of June 30, 1996 was established to preserve benefits already accrued by salaried employees under the final pay plan and resulted in an increase in earned benefits for most employees. SBC also updated the actuarial assumptions used in valuing the PAC plans to reflect changes in market interest rates and recent experience, including a change in its assumption concerning future ad hoc increases in pension benefits. Taken together, these changes increased net income by approximately $125 during 1996.

The actuarial estimate of the accumulated benefit obligation does not include assumptions about future compensation levels. The accumulated benefit obligation as of December 31, 1996 was $13,965, of which $12,376 was vested. At December 31, 1995 these amounts were $15,433 and $13,565. The reduction in the accumulated benefit obligation in 1996 reflects the changes noted above.

During 1996, 1995 and 1994, special pension benefits and cash incentives were offered in connection with PacBell restructuring and related force reduction program. Approximately 4,200, 2,200 and 3,800 employees left PacBell during 1996, 1995 and 1994, respectively, under retirement or voluntary and involuntary severance programs. Annual pension cost excludes $(64), $219 and $62 of additional pension costs charged to PacBell's restructuring reserve in 1996, 1995 and 1994, respectively.

In December 1996, under the provisions of Section 420 of the Internal Revenue Code, SBC transferred $73 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by SBC.

Dollars in millions except per share amounts

Supplemental Retirement Plans - SBC also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by SBC based on a percentage of the compensation deferral. Expenses related to these plans were $88, $91 and $94 in 1996, 1995 and 1994. Liabilities of $758 and $701 related to these plans have been included in other noncurrent liabilities in SBC's Consolidated Balance Sheets at December 31, 1996 and 1995.

Postretirement Benefits - SBC provides certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrues actuarially determined postretirement benefit costs as active employees earn these benefits. However, employees retiring after certain dates will pay a share of the costs of medical coverage that exceeds a defined dollar medical cap. Such future cost sharing provisions have been reflected in determining SBC's postretirement benefit costs.

Postretirement benefit cost is composed of the following:

	1996	1995	1994
Service cost--benefits earned during the period	**$ 101**	99	$ 108
Interest cost on accumulated postretirement benefit obligation (APBO)	**475**	496	489
Actual return on assets	**(375)**	(452)	(19)
Other--net	**208**	318	(87)
Postretirement benefit cost	**$ 409**	$ 461	$ 491

SBC maintains Voluntary Employee Beneficiary Association (VEBA) trusts to fund postretirement benefits. During 1996 and 1995, SBC contributed $320 and $455 into the VEBA trusts to be ultimately used for the payment of postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the plans' funded status and the amount included in SBC's Consolidated Balance Sheets at December 31:

	1996	1995
Retirees	**$ 4,047**	$ 4,200
Fully eligible active plan participants	**706**	583
Other active plan participants	**1,819**	1,867
Total APBO	**6,572**	6,650
Less: Fair value of plan assets	**2,697**	2,169
APBO in excess of plan assets	**3,875**	4,481
Unrecognized prior service cost	**(31)**	(38)
Unrecognized net gain	**1,119**	616
Accrued postretirement benefit obligation	**$ 4,963**	$ 5,059

In December 1995, one of the life insurance benefit plans was merged with one of the medical plans. Also in December 1995, $109 of postretirement life insurance assets were transferred to the VEBA trusts. The fair value of plan assets restricted to the payment of life insurance benefits only were $746 and $700 at December 31, 1996 and 1995. At December 31, 1996 and 1995, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $57 and $42.

The assumed medical cost trend rate in 1997 is 8%, decreasing gradually to 5.5% in 2002, prior to adjustment for cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost trend rate in 1997 is 6.25%, reducing to 5.0% in 2002. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1996 by $557 and increases the aggregate service and interest cost components of the net periodic postretirement benefit cost for 1996 by approximately $53. Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO and related postretirement benefit costs were the same as those used in developing the pension information.

Dollars in millions except per share amounts

10. Other Employee Benefits

Employee Stock Ownership Plans - SBC maintains contributory savings plans which cover substantially all employees. Under the savings plans, SBC matches a stated percentage of eligible employee contributions, subject to a specified ceiling.

SBC has three leveraged Employee Stock Ownership Plans (ESOPs) as part of the existing savings plans. Two of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. These notes are unconditionally guaranteed by SBC and therefore recorded as a liability. They will be repaid with SBC contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

The third ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Since PAC is the lender, this note is not reflected as a liability and the remaining cost of unallocated trust shares is carried as a reduction of shareowners' equity. Principal and interest on the note is paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of this ESOP were unaffected by this exchange.

SBC's match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	1996	1995	1994
Benefit expense--net of dividends and interest income	$ 65	$ 66	$ 67
Interest expense--net of dividends and interest income	26	37	36
Net ESOP expense	91	103	103
Additional savings plans stock purchases	-	-	(1)
Total expense	$ 91	$ 103	$ 102
Company contributions for ESOPs	$ 108	$ 89	$ 118
Dividends and interest income for debt service	$ 62	$ 72	$ 62

SBC shares held by the ESOPs are summarized as follows at December 31:

	1996	1995
Unallocated	15,502,896	16,136,159
Committed to be allocated	177,594	274,425
Allocated to participants	15,559,574	16,209,602
Total	31,240,064	32,620,186

11. Stock Based Compensation

Under various SBC plans, senior and other management employees have received stock options and SARs to purchase 41 million shares of SBC common stock. As of December 31, 1996, SBC is authorized to issue options to purchase up to an additional 37 million shares remain authorized for issuance. Options issued through December 31, 1996 carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Depending upon the plan, vesting of options occurs up to three years from the date of grant.

In 1996 SBC elected to continue measuring compensation cost for these plans using the intrinsic value based method of accounting prescribed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (FAS 123). Accordingly, no compensation cost for stock based compensation plans has been recognized other than for restricted stock and SARs which totaled $2 and $1 for 1996 and 1995, respectively. Had compensation cost for stock option plans been recognized using the fair value based method of accounting at the date of grant for awards in 1996 and 1995 as defined by FAS 123, SBC's net income (loss) would have been $3,250 and $(3,074) and net income (loss) per share would have been $3.53 and $(3.34).

Options and SARs held by the continuing employees of PAC at the time of the spin-off (see Note 15) were supplemented with an equal number of options and SARs for common shares of spun-off operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spun-off operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of spun-off operations stock and the exercise prices of the supplemental options outstanding (see Note 7). As of December 31, 1996, 2,182,369 supplemental spun-off operations options and SARs were outstanding with expiration dates ranging from 1997 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spin-off date were replaced by options and SARs for common shares of spun-off operations. The spun-off operations assumed liability for these replacement options and SARs.

For purposes of these pro forma disclosures, the estimated fair value of the options granted after 1994 is amortized to expense over the options' vesting period. Because most employee options vest over a two to three year period, these disclosures will not be indicative of future pro forma amounts until the FAS 123 rules are applied to all outstanding non-vested awards. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1995: risk-free interest rate of 6.26% and 6.34%; dividend yield of 4.92% and 3.61%; expected volatility factor of 18% and 18%; and expected option life of 4.7 and 4.6 years.

Dollars in millions except per share amounts

Information related to options and SARs is summarized below:

	Number	Weighted Average Exercise Price
Outstanding at January 1, 1994	14,318,818	$35.25
Granted	10,504,532	42.72
Exercised	(1,304,357)	32.14
Forfeited/Expired	(505,278)	38.04
Replaced - Spun-off operations	(1,019,633)	33.17
Outstanding at December 31, 1994	21,994,082	39.03
(7,942,775 exercisable at weighted average price of $34.60)		
Granted	8,367,822	46.97
Exercised	(2,186,670)	33.79
Forfeited/Expired	(754,684)	42.71
Outstanding at December 31, 1995	27,420,550	41.77
(12,762,259 exercisable at weighted average price of $38.10)		
Granted	12,321,638	45.96
Exercised	(1,883,710)	37.45
Forfeited/Expired	(759,276)	43.11
Outstanding at December 31, 1996	**37,099,202**	**$43.35**
(17,761,413 exercisable at weighted average price of $40.25)		

Information related to options and SARs outstanding at December 31, 1996:

Exercise Price Range	$22.00-26.99	$27.00-39.99	$40.00-44.99	$45.00-57.38
Number of options and SARs:				
Outstanding	78,305	8,315,629	12,986,852	15,718,416
Exercisable	78,305	4,501,735	11,653,036	1,528,337
Weighted average exercise price:				
Outstanding	$24.05	$ 35.26	$ 42.04	$ 48.81
Exercisable	$24.05	$ 33.42	$ 42.07	$ 47.35
Weighted average remaining contractual life	1.8 years	4.9 years	7.2 years	6.2 years

The weighted-average grant-date fair value of each option granted during the year was $6.90 for 1996 and $8.31 for 1995.

Options and SARs outstanding but not exercisable at December 31, 1996 include 3,811,502 held by PAC employees. All options and SARs held by PAC employees became exercisable effective with the merger.

12. Shareowners' Equity

Share Repurchases - From time to time, SBC has repurchased shares of common stock for distribution, to offset shares distributed through its employee benefit plans and SBC's Dividend Reinvestment Plan, in connection with certain acquisitions or for general purposes. In January 1997, the Board of Directors of SBC (Board) rescinded all authorizations to repurchase common stock.

Guaranteed Obligations of Employee Stock Ownership Plans - SBC's guarantee of certain ESOP notes issued by savings plans (see Note 10) is presented as a reduction to shareowners' equity and an increase in long-term debt. The amount of debt guaranteed decreases as the notes are repaid.

Shareowners' Rights Plan - The Shareowners' Rights Plan (Plan) becomes operative in certain events involving the acquisition of 20% or more of SBC's common stock by any person or group in a transaction not approved by the Board, or the designation by the Board of a person or group owning more than 10% of the outstanding stock as an adverse person, as provided in the Plan. Upon the occurrence of these events, each right, unless redeemed by the Board, generally entitles the holder (other than the holder triggering the right) to purchase an amount of common stock of SBC (or, in certain circumstances, of the potential acquiror) having a value equal to two times the exercise price of $160. The rights expire in January 1999. After giving effect to a stock split in May 1993, effected in the form of a stock dividend, each share of common stock represents one-half of a right.

The rights have certain antitakeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire SBC on terms not approved by the Board.

The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed.

13. Acquisitions and Dispositions

In October 1995, SBC combined its United Kingdom cable television operations with those of TeleWest Communications, P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C. (TeleWest), is the largest cable television operator in the United Kingdom. SBC owns approximately 15% of the new entity and accounts for its investment using the cost method of accounting. Restrictions expiring over the next four years exist on the sale of SBC's interest in TeleWest. SBC recorded an after-tax gain of $111 associated with the combination.

During 1995, SBC purchased at auction PCS licenses in Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma for approximately $769. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

During 1994, SBC purchased two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, for $650. Also in 1994, SBC acquired the domestic wireless business of Associated Communications Corporation (Associated) for $705, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, and in two separate transactions purchased smaller wireless systems in Syracuse, Utica and Ithaca, New York, which are adjacent to the Associated properties.

In October 1994, SBC formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.-Baltimore and surrounding rural markets. SBC and CGE both made contributions to the alliance. SBC's effective contribution was $376. This investment is accounted for under the equity method of accounting.

In addition to payments shown in the Consolidated Statements of Cash Flows, the 1994 acquisitions were also financed through the issuance of 16 million new and treasury shares, valued at approximately $660, and the issuance of approximately $360 of long-term debt. All of the acquisitions were accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

The above developments did not have a significant impact on consolidated results of operations for 1995 and 1994, nor would they had they occurred on January 1 of the respective periods.

Dollars in millions except per share amounts

14. Additional Financial Information

Balance Sheets	December 31, 1996	1995
Accounts payable and accrued liabilities		
Accounts payable	$ 2,741	$ 2,639
Accrued taxes	893	472
Advance billing and customer deposits	611	672
Compensated future absences	479	477
Accrued interest	279	265
Accrued payroll	194	173
Other	1,387	1,328
Total	$ 6,584	$ 6,026

Statements of Income	1996	1995	1994
Interest expense incurred	$ 948	$ 1,000	$ 935
Capitalized interest	(136)	(43)	-
Total interest expense	$ 812	$ 957	$ 935
Allowance for funds used during construction	-	$ 48	$ 48

Statements of Cash Flows	1996	1995	1994
Cash paid during the year for:			
Interest	$ 908	$ 996	$ 923
Income taxes	$ 1,283	$ 1,220	$ 1,665

No customer accounted for more than 10% of consolidated revenues in 1996 or 1995. Approximately 10% of SBC's consolidated revenues in 1994 were from services provided to AT&T Corp. No other customer accounted for more than 10% of consolidated revenues in 1994.

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1997. Approximately 66% of SBC's employees are represented by the CWA.

Dollars in millions except per share amounts

15. Spun-Off Operations

Effective April 1, 1994, PAC spun off to shareowners its domestic and international cellular, paging and other wireless operations in a one-for-one stock distribution of its 86% interest in AirTouch Communications, Inc. The stock distribution was recorded as a stock dividend from paid-in capital at the carrying amount of the net assets of spun-off operations. As a result, PAC's total assets and shareowners' equity were each reduced by $2.9 billion in 1994. The stock distribution itself was a non-cash transaction, which did not affect PAC's cash flow statement.

Under a separation agreement, any unrecorded non-tax contingent liabilities that become certain after the spin-off date will be allocated based on origin of the claim, and acts by, or benefits to, PAC or the spun-off operations. In addition, PAC's responsibilities have been terminated in connection with any future obligations under the spun-off operations' joint venture agreement with Cellular Communications, Inc., and under various financial instrument contracts.

PAC's previous interests in the net revenues and expenses of the spun-off operations prior to April 1, 1994, are classified separately as income from spun-off operations in the income statement.

The components of income from operations through March 31, 1994 are summarized below:

Operating revenues	$	259
Operating expenses		225
Operating income		34
Other income (expense)-net		22
Income before income taxes		56
Income taxes		29
Income before minority interest		27
Minority interest of other shareowners		(4)
Income from spun-off operations	$	23

PAC's cash flow statement for 1994 includes separately the cash flows of spun-off operations.

16. Restructuring Reserve

In December 1993 a reserve was established to record the incremental cost of force reductions associated with restructuring PacBell's business processes through 1997. This reserve is to cover the incremental severance costs associated with terminating more than 14,000 employees through 1997. It is also to cover the incremental costs of consolidating and streamlining operations and facilities to support this downsizing initiative. The remaining reserve balance as of December 31, 1996 and 1995, was $97 and $228, respectively.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

17. Commitments And Contingencies

Purchase Commitments - In December 1994, PacBell contracted for the purchase of up to $2,000 of Advanced Communications Network ("ACN") facilities, which incorporated new technologies. During 1995, the ability to deploy the facilities outstripped the ACN vendors' ability to deliver necessary products and software. Accordingly, management decided to suspend construction at certain sites, which reduced the expected cost to less than $700. If ACN facilities meet certain quality and performance criteria (the Network Test), PacBell is committed to purchase the ACN facilities in 1998. If ACN facilities are acquired, due to competition or other factors affecting PacBell's ability to recover its investment in these facilities, their value to PacBell could be materially impaired. If ACN facilities fail the Network Test, PacBell will not be committed to buy the ACN facilities but might be liable to reimburse the principal ACN vendor for some construction costs up to $300, which would also result in a material charge

As of December 31, 1996, PacBell had purchase commitments of about $208 remaining in connection with its previously announced program for deploying an all digital switching platform with ISDN and SS-7 capabilities.

Revenues Subject to Refund - In 1992, the CPUC issued a decision adopting, with modification, FAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately $100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending this future proceeding. Subsequently, the CPUC reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

Property Tax Investigation - In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to customers. Intervenors have asserted that as much as $20 of annual property tax savings should be treated as an exogenous cost reduction in PacBell's annual price cap filings. These intervenors have also asserted that past property tax savings totaling as much as approximately $70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution in a separate proceeding of the criteria for exogenous cost treatment under its regulatory framework.

Dollars in millions except per share amounts

18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price [4] High	Stock Price [4] Low	Stock Price [4] Close
1996							
First [1]	$ 5,574	$ 1,458	$ 888	$ 0.96	$ 60.250	$ 49.750	$ 52.625
Second	5,738	1,489	803	0.87	50.750	46.250	49.250
Third	5,957	1,532	867	0.94	51.000	46.000	48.125
Fourth	6,217	1,357	721	0.79	55.250	47.000	51.875
Annual [1]	$ 23,486	$ 5,836	$ 3,279	$ 3.56			
1995							
First	$ 5,164	$ 1,233	$ 695	$ 0.76	$ 43.875	$ 39.625	$ 42.000
Second	5,256	1,301	712	0.78	47.875	41.625	47.625
Third [2]	5,567	1,432	(5,207)	(5.64)	55.125	45.500	55.000
Fourth [3]	5,725	1,154	736	0.80	58.500	53.125	57.250
Annual [2]	$ 21,712	$ 5,120	$ (3,064)	$ (3.33)			

(1) Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $90 or $0.10 per share from change in accounting for directory operations.

(2) Net Loss and Earnings per Common Share reflect an extraordinary loss of $6,022, or $6.55 per share, from discontinuance of regulatory accounting.

(3) Operating Income reflects $139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of $88 for the strategic realignment of functions and $11 for refinancing of debt and an after-tax gain of $111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was $12, or $0.01 per share.

(4) Represents historical trading of SBC common stock. Prices have not been adjusted to reflect the merger with PAC.

(b) Exhibits

Exhibit 18	Preferability letter on changes in accounting.
Exhibit 23-a	Consent of Ernst & Young LLP.
Exhibit 23-b	Consent of Coopers & Lybrand L.L.P.
Exhibit 27	Financial Data Schedule.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBC Communications Inc.

/s/ Donald E. Kiernan
Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

May 8, 1997

EXHIBIT INDEX

Exhibit Number	
18	Preferability letter on changes in accounting.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule.

EXHIBIT 18

May 8, 1997

Mr. Donald Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer
SBC Communications Inc.
175 W. Houston Street
San Antonio, Texas 78205

Dear Mr. Kiernan:

Note 3 of Notes to Consolidated Financial Statements of SBC Communications Inc. (SBC) included in its Form 8-K filed in connection with the merger of SBC and Pacific Telesis Group (PAC) describes changes in the methods of accounting for pensions, postretirement benefits, and sales commissions. You have advised us that you believe that the changes are to conform the accounting methods of SBC and PAC and that the new methods are preferable because the new methods for pensions and postretirement benefits are more widely used and the new method for sales commissions is prevalent industry practice.

We conclude that the changes in the methods of accounting for the items described above are to acceptable alternative methods which, based on your business judgment to make these changes for the reasons cited above, are preferable in your circumstances.

ERNST & YOUNG LLP

EXHIBIT 23-a

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the SBC Savings Plan and Savings and Security Plan (Nos. 33-54309 and 333-24295), the Stock Savings Plan, Management Stock Savings Plan and Stock Based Savings Plan (Nos. 33-37451 and 33-54291), the SBC Communications Inc. 1992 Stock Option Plan (No. 33-49855) and the SBC Communications Inc. 1995 Management Stock Option Plan (No. 33-61715), and in the Registration Statements (Forms S-3) pertaining to the SBC Communications Inc. Dividend Reinvestment Plan (No. 333-08979), and SBC Communications Capital Corporation and SBC Communications Inc. (Nos. 33-45490 and 33-56909), and in the related Prospectuses of our report dated February 14, 1997 (except Note 3, as to which the date is April 1, 1997), with respect to the supplemental consolidated financial statements included in this Current Report (Form 8-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Antonio, Texas
May 7, 1997

EXHIBIT 23-b

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Form 8-K of SBC Communications Inc. of our report dated February 27, 1997, on our audits of the consolidated financial statements and financial statement schedule of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996.

Coopers & Lybrand L.L.P.

San Francisco, California
May 8, 1997

EXHIBIT 27

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THIS SCHEDULE CONTAINS SUMMARY FINANACIAL INFORMATION EXTRACTED FROM SBC COMMUNICATIONS INC.'S DECEMBER 31, 1996 SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<F2> NET SALES OF TANGIBLE PRODUCTS IS NOT MORE THAN 10% OF TOTAL OPERATING REVENUES AND THEREFORE HAS NOT BEEN STATED SEPARATELY IN THE FINANCIAL STATEMENTS PURSUANT TO REGULATION S-X, RULE 5-03(B). THIS AMOUNT IS INCLUDED IN THE "TOTAL REVENUES" TAG.
<F3> COST OF TANGIBLE GOODS SOLD IS INCLUDED IN COST OF SERVICES AND PRODUCTS IN THE FINANCIAL STATEMENTS AND THE "TOTAL-COST" TAG, PURSUANT TO REGULATION S-X,RULE 5-03(B).
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EXHIBIT 99

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners
of Pacific Telesis Group:

We have audited the accompanying consolidated balance sheets of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the Consolidated Financial Statements, Pacific Bell, a subsidiary of Pacific Telesis Group, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. Also discussed in Note A, Pacific Bell discontinued its application of Statement of Financial Accounting Standards No. 71 during 1995.

/s/ Coopers & Lybrand L.L.P.

San Francisco, California
February 27, 1997

ATTACHMENT F

SBC's 1997 GROWTH PROFILE

ATTACHMENT G

CELLULAR COVERAGE MAP AND MATRIX